

# Progress on Unbundling

Eskom submission to the Portfolio Committee on Public Enterprises

Briefing on  
Recovery Plan and progress with the unbundling of  
Eskom into three independent entities

3 June 2020



CHANGE

Leadership

Accountability

OLD WAY

NEW WAY

- Challenges and Turnaround Strategy
- Update on “unbundling” - Roadmap Update
- Conclusion



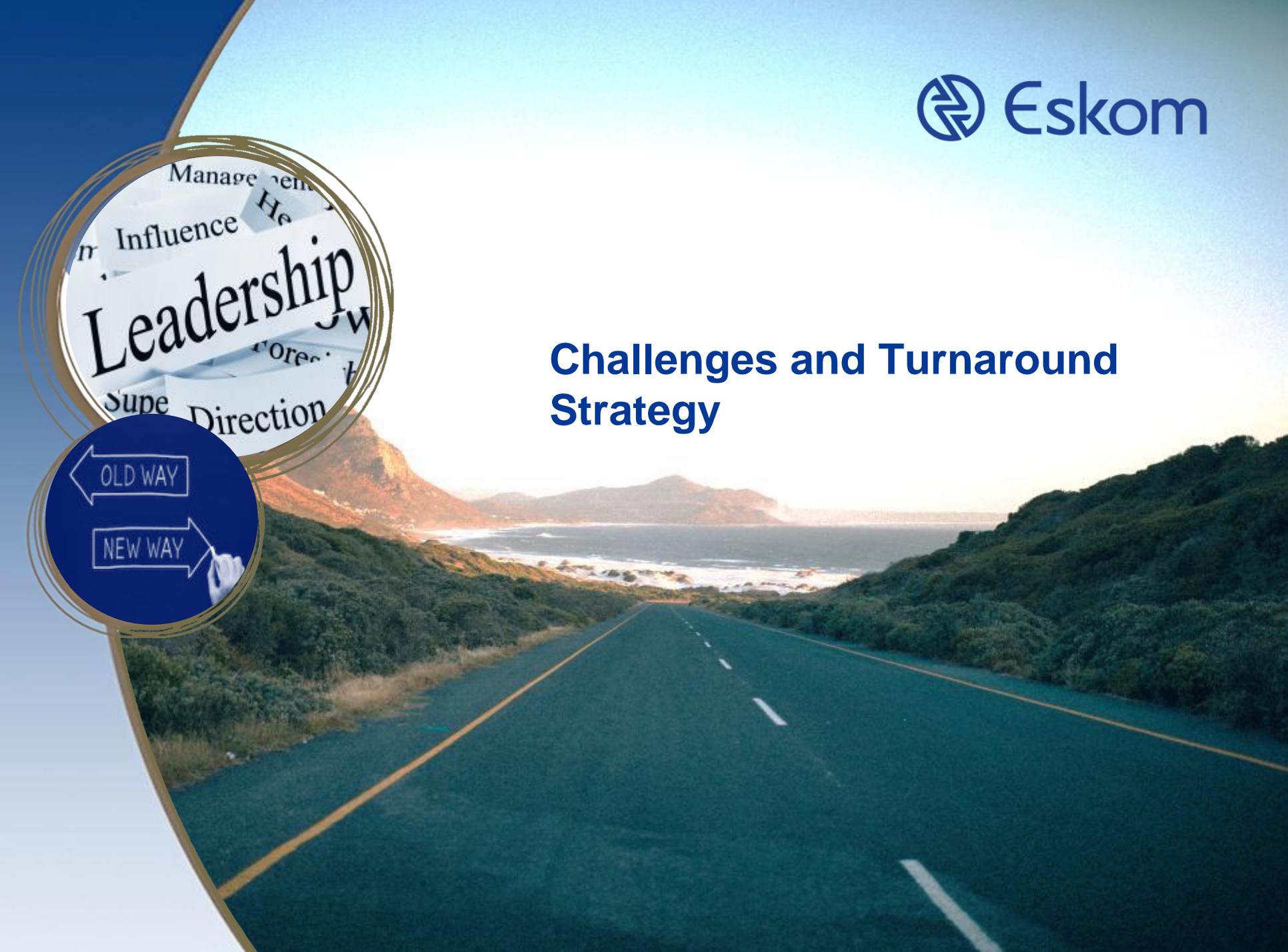
# Challenges and Turnaround Strategy



Management  
Influence  
**Leadership**  
Direction  
Strategy

← OLD WAY

NEW WAY →



# Eskom challenges- Eskom has been facing a number of challenges



## DAILY NEWS

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### Debt

- Debt approaching R450bn
- Unable to service debt from own EBITDA
- Must borrow to service debt



### Revenue

- Volume declining +1% per year
- Tariffs not cost efficient
- Collection rate at 80%, R38bn in receivables outstanding



### Costs

- Opex increased 30% in 5 years, reaching R151bn in FY19
- Large increases in employee & coal costs
- Procurement costs are above market norms



### Operations

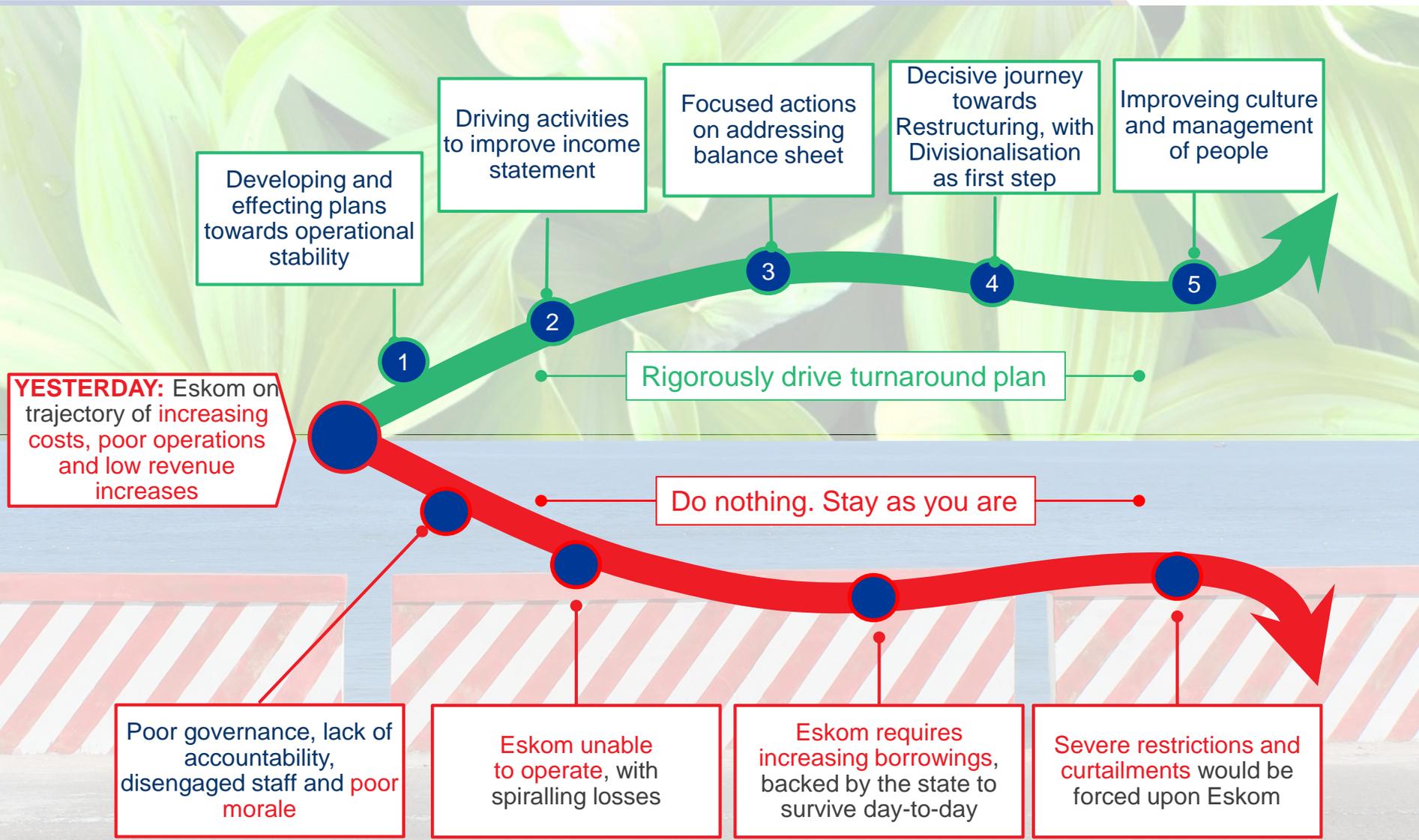
- EAF below 70% during FY19 & FY20
- Load shedding, increased costs, lost revenue, lost credibility



### Outdated Business Model

- Utility death spiral
- Operational and structural inefficiencies
- Lack of transparency
- Change in energy landscape

# We have been at the cross roads, and are decisively taking action to turn Eskom around



Eskom will continue to struggle to qualify for going concern status every year, higher tariffs and more companies going off-grid continued burden for the South African economy. As an agent of state, Eskom's failure is not an option

The strategic turnaround plan is the direct response to the challenges that will enable road to recovery

## Strategy for a new Eskom

Vision: Drive economic growth by being a financially stable provider of energy solutions across Africa

Stabilize

1

Optimise

2

Grow

3

Turnaround Plan

Operational Stability

Improved Income Statement

Strong Balance Sheet

Restructuring

High Performance Culture

Values driven

Advocacy and stakeholder engagement

Co-creating an industry and market structure

1

### Stabilise

- Improved liquidity
- Improved profitability
- Cost reflective tariff path
- Retain existing customers
- Cumulative savings
- Debt relief
- Improved receivables
- Improved electricity reliability
- Improved governance

2

### Optimise

- Divisionalise Tx, Dx and Gx under Eskom Holdings
- Divisions have own service functions and clear accountability
- Lean and efficient Centre

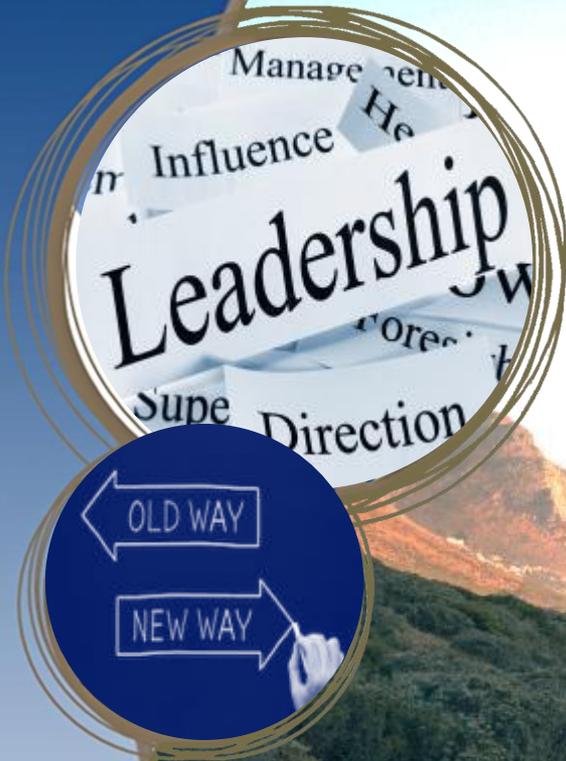
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### Grow

- Quick returns projects aligned to strategy
- Build growth capability
- Renewables and gas player
- E-mobility
- Storage
- Micro and mini grids

# Roadmap for Eskom in a Reformed Electricity Supply Industry” (“Roadmap”)

## Progress Update on Divisionalisation / Functional Separation



- Eskom has achieved most of the 2019/20 targets set in the Roadmap
  - Re-linked a total of 8890 employees, of which 6500 are from head-office functions to the operating divisions.
  - Appointed Divisional Managing Directors
  - Established Divisional Boards and appointed Board members
  - All three businesses have Income Statements and Cash flow Statements
  - Aspects regarding Market Operator and central purchasing agency establishment is underway
- Eskom has revised timelines for the balance of the Roadmap targets, and herein is an update indicating good progress.
- The **end state** for the separation of the three businesses as subsidiaries under Eskom Holdings remains aligned to the Roadmap.

In line with the Roadmap, we report on progress by categorising into five broad timeline categories.

	Roadmap Deliverables	Roadmap Timeline	Eskom Timeline <sup>1</sup>
1	Divisional financials, organisational design, power purchase agreements and electricity supply agreements	Dec 2019	Mar 2020
2	Establishment of divisional boards and heads appointed	Mar 2020	Mar 2020
3	Support Systems and functions complete	June 2020	Dec 2021
4	Completion of “Functional Separation” <ul style="list-style-type: none"> <li>▪ Transmission</li> <li>▪ Generation &amp; Distribution</li> </ul>	Dec 2020 June 2021	Mar 2022 Mar 2022
5	Completion of “Separation” <sup>2</sup> <ul style="list-style-type: none"> <li>▪ Transmission</li> <li>▪ Generation &amp; Distribution</li> </ul>	Dec 2021 Dec 2022	TBC TBC

**Notes:**

1. Eskom timeline to be baseline going forward.
2. Commencement of Legal separation is after divisionalisation. A number of the processes required for legal separation are outside of Eskom’s control.

 Complete
  In progress
  Delayed
  Not started

Milestone	Progress	Status
Divisional Financial reporting in place	<ul style="list-style-type: none"> <li>– Income statement and cash flow statements in place for all divisions</li> <li>– All statements based on financial allocations, system changes to reflect financials in ERP due end August 2020</li> </ul>	
Organisational design in place	<ul style="list-style-type: none"> <li>– A total number of 8890 staff were moved, of the total, 6459 staff members moved from central functions to divisions, and 2431 staff members between divisions to ensure appropriate control and accountability.</li> <li>– Revised structures were also created in the divisions to accommodate the movement of staff and the relevant delegations of authority to accommodate those staff in the divisions were created and approved.</li> <li>– Business and operating models design underway - Functional leader model for the centre approved and being implemented.</li> <li>– Corporate staff who previously serviced operating divisions from a centralised position are now reporting directly into divisions.</li> <li>– The relinking of staff and related costs to divisions is done. Implementation of new operating models may require further staff movements, however this is expected to be minimal.</li> </ul>	
Power purchase agreements and electricity supply agreements	<ul style="list-style-type: none"> <li>– The internal energy trading process has been reinstated inside Eskom, to enable full transfer pricing, together with corporate cost allocations to all the divisions.</li> <li>– Internal Power Purchase Agreements (PPAs) and Energy Supply Agreements (ESAs) have been drafted, approved and signed between transmission, 27 power stations, distribution and Southern Africa Energy (SAE).</li> <li>– Day ahead market simulation operational</li> <li>– Balancing market is at advanced stage</li> <li>– Trading governance committee charters developed</li> <li>– Governance committee members</li> <li>– Training on trader platform</li> </ul>	

 Complete
  In progress
  Delayed
  Not started

Milestone	Progress	Status
Divisional Boards	<ul style="list-style-type: none"> <li>– The Boards of Transmission, Generation and Distribution have been established and are chaired by the Group Chief Executive of Eskom Holdings.</li> <li>– The Divisional Boards hold the division accountable on strategy implementation, business performance and functional compliance. They will also approve projects and changes in resources.</li> <li>– The boards are mandated to run the divisions as an independent businesses while aligning to the Group strategy under Eskom Holdings.</li> <li>– The boards have held two meetings to date.</li> <li>– The delegation of authority for the boards is being finalised (July 2020)</li> </ul>	
CEOs appointed	<ul style="list-style-type: none"> <li>– Aligned to the Eskom Memorandum of Incorporation (MOI), the MDs (not CEOs) have been appointed, and have bottom line accountability for the division</li> <li>– MDs are Exco members.</li> </ul>	



Milestone	Progress	Status
Support Systems and functions complete	<ul style="list-style-type: none"> <li>– Eskom can execute on the people structures (re-linking) without risk.</li> <li>– The Eskom ERP system i.e. SAP is however highly integrated and requires more time to ensure separate businesses are supported.</li> <li>– Given state of IT infrastructure and extent of complexity, we plan to execute the system, data and processes ring-fencing and optimisation in 18 months.</li> <li>– It must noted that the timeline is still within Eskom’s functional separation timelines.</li> <li>– Feasibility study completed, user requirement assessed</li> <li>– Obtained go-ahead to develop “re-use” solution to migrate PC &amp; CC linked objects</li> <li>– Project Team established, development work started</li> <li>– A financial conversion tool is being developed in the ERP system and is due for delivery end June 2020.</li> <li>– Eskom is conducting a proactive analysis of the IT systems impacted by the separation in order to inform the detailed implementation plan.</li> <li>– A detailed Roadmap is currently being drafted with an envisaged completion date of December 2021. Progress is on track.</li> <li>– As-Is and To-Be Systems Analyses / Design</li> <li>– To-be system analysis dependent on Operating Model</li> <li>– Tx define sensitive information and how to ensure future independence</li> <li>– IT resource risk – Panel contract process started</li> </ul>	

## Completion of Divisionalisation/ “Functional Separation”



	Progress	Status
a. Business Models Roadmap	<p><b>Overview</b></p> <ul style="list-style-type: none"> <li>The Divisionalisation of Transmission, Distribution and Generation unlocks the journey ahead</li> <li>Below is an overview of progress achieved regarding the business and operating models, as well as how Eskom is structured to execute and enable oversight into the execution of these activities.</li> </ul>	
	<p><b>1. Baseline business models (June 2020)</b> As is - current electricity market: Key issues:-</p> <ul style="list-style-type: none"> <li>Identification of products and markets with an internal trading system in place and potential new products to be identified</li> <li>High level cost structures</li> <li>High level revenue flows (assumptions)</li> <li>Customers segments and delivery to them</li> </ul> <p><b>2. Business Models Refinement</b> Impact of changing/likely industry structure</p> <p><b>3. Business Model Evolution</b></p> <ul style="list-style-type: none"> <li>Decisions to be taken on key considerations for legal separation (Tx, Gx, Dx), e.g. businesses are sustainable</li> <li>All decisions finalised regarding industry structure (role of Tx, customer allocation, pricing models, markets etc)</li> <li>Decisions taken on growth strategy (and market research), and business cases are in place</li> <li>Monitoring of market changes</li> <li>Reviews/ further evolution of business models (and therefore operating models).</li> </ul>	

# 4 Roadmap Update - Deliverables by 31 Mar 2022



## Completion of Divisionalisation “Functional Separation”



	Progress	Status
b. Operating models	<ul style="list-style-type: none"> <li>• The role of the corporate centre has been finalised, as that of a functional leader.                             <ul style="list-style-type: none"> <li>○ Group functional heads report to ExCo members with functional responsibility and are accountable for the formulation and implementation of functional strategy and policy, as approved by the Board and Exco.</li> <li>○ Group support services provide economies of skill and scale. Support services are operated on business principles, with divisional representation on governance structures, to ensure cost and service discipline.</li> <li>○ Work on the associated RACIs (Responsible, Accountable, Consulted and Informed) has been completed and is being communicated and will then implemented</li> </ul> </li> <li>• Design divisions new operating models (Structure, grading, skills, governance, process, kpi's, systems &amp; data)</li> <li>• Approval divisional &amp; holdings operating models</li> <li>• Operating models timeline September 2020</li> </ul>	
c. Labour engagement	<ul style="list-style-type: none"> <li>• Divisionalisation labour engagement roadmap drafted</li> <li>• Engagement with relevant structures</li> </ul>	

**Completion of Divisionalisation “Functional Separation”**


Complete



In progress



Delayed



Not started

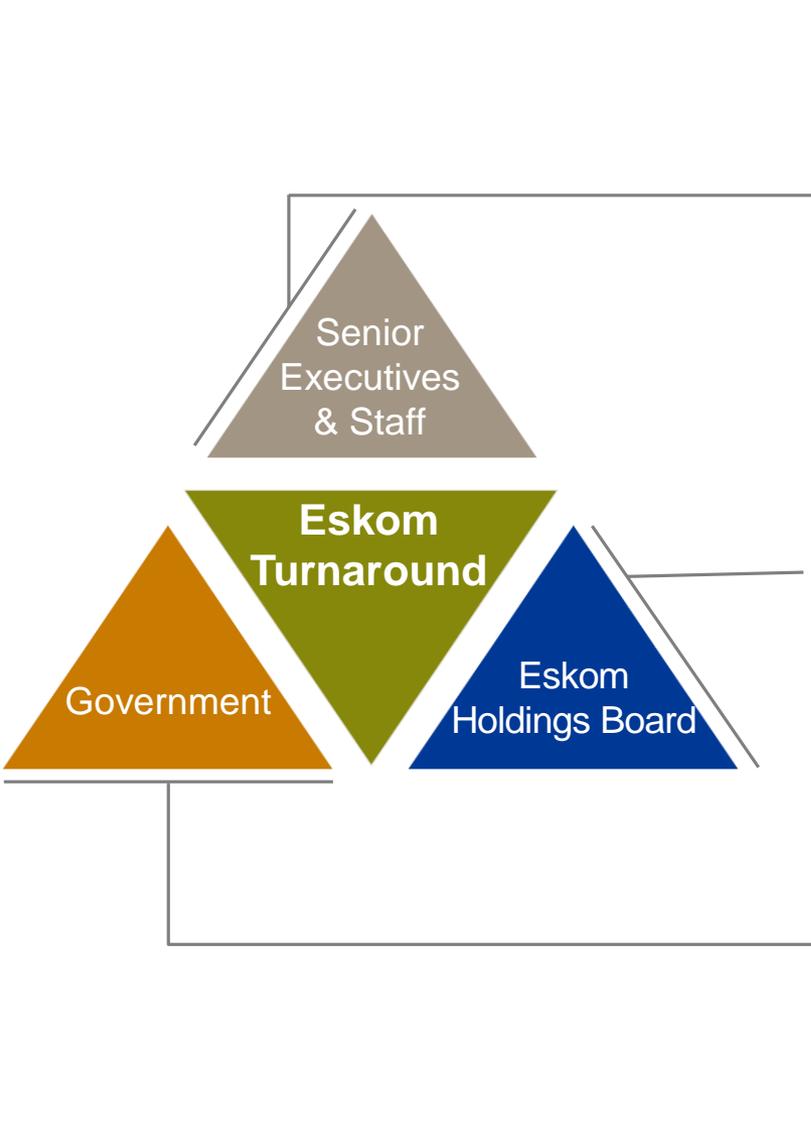
	Progress	Status
d. Key activities in the critical path for divisionalisation	<ul style="list-style-type: none"> <li>○ Complete any residual staff relinking at Corporate – ongoing</li> <li>○ Complete Industry structure</li> <li>○ Complete baseline Business Models – July 2020</li> <li>○ Complete Operating models - November 2020</li> <li>○ As part of implementing Operating models, there may be requirements for further staff movements, training of staff etc and labour engagements (March 2021)</li> <li>○ Refinement to IT systems (June 2021)</li> <li>○ Refinements to trading systems in Transmission (June 2021)</li> <li>○ Complete prototyping and road testing towards achieving sustainable stand-alone businesses (March 2022)</li> </ul>	●
e. Programme Management	<ul style="list-style-type: none"> <li>○ Change management</li> <li>○ Structures established to enable the turnaround include a Turnaround Management Office (TMO), Strategy development Project Management Office (PMO) and Divisional frameworks (Divisional Turnaround Steering Committees, Divisional Turnaround Programme Management Offices (PMOs), and various projects or streams).</li> <li>○ The TMO operates as a vehicle for the necessary oversight and management of key initiatives critical to achievement of the Eskom turnaround strategy.</li> <li>○ The TMO plays the role of an integration body across the other structures set up to implement and drive the turnaround; coordinate the scope, objectives, plans, resources and timelines across the programme; and track and communicate all matters relating to the Turnaround Plan.</li> <li>○ The position for the Turnaround Management Officer to direct the program has been advertised. Applications closed on the 22nd March 2020 and the appointment is imminent.</li> </ul>	●

# Roadmap Update - *Plan for Completion of Legal Separation is government dependent*

## Legal Separation



Milestone	Progress	Status
<b>a. Issues, Alignment and Communications</b>	<ul style="list-style-type: none"> <li>– Formalised communications plan and pack with a clear Eskom view on timeframes, objectives etc. for internal and external communication on divisionalisation roadmap</li> <li>– Eskom commencement with the preparatory work for legal separation, as the second phase.</li> </ul>	
<b>b. Preparation for legal separation</b>	<ul style="list-style-type: none"> <li>– The process of outlining legal requirements will be completed by 30 September 2020 as envisaged in the Roadmap.</li> <li>– Industry and market rules being reviewed/ drafted</li> <li>– IT Systems &amp; data separation planning</li> <li>– IT Systems &amp; data separation execution</li> <li>– Additional activities required for completion being refined</li> <li>– Commencement of go-live support for divisions</li> <li>– Legal separation will commence after the completion of divisionalisation, once the required legal framework is in place and Eskom is financially sound</li> <li>– Outcomes include Market operator</li> </ul>	
<b>c. Governments inputs</b>	<ul style="list-style-type: none"> <li>– Alignment on roles for policy / regulatory industry regarding the development of an electricity market</li> <li>– Labour related matters- issues and how these will be managed (who, when etc) between Eskom and government</li> <li>– A formalised policy, tested with all relevant stakeholders</li> <li>– Approved market rules and Market Code</li> <li>– Approved pricing, subsidy and legacy cost models</li> <li>– Legal enablers determined and addresses: amended laws, regulations etc.</li> <li>– A revised regulatory model, and capacitated NERSA</li> </ul>	



## **Executives-** Set the vision and drive the turnaround

- Provide visible commitment through leading by example
- Be transparent and take all employees along the journey
- Set ambitious targets

## **Staff-** Constructively engage in the turnaround

- Contribute to execution of the turnaround plan
- Provide honest appraisals of programme success and areas for improvement
- Organised labour engagements



## **Board-** Provide leadership and vision

- Alignment with key external stakeholders
- Monitor the corporate strategy & guide restructuring
- Provide supervision on financial matters and management of risk



## **Government -**

- Set long-term industry structure and support turnaround
- Set mandate and strategic direction
- Facilitate engagement on industry matters
- Financial support
- Lead on key stakeholder matters
- Provide support to implement turnaround

- Eskom is faced with a number of challenges e.g. R450bn debt, declining revenue, increasing costs, operational challenges and an outdated business model.
- The strategic turnaround plan is a direct response to the challenges that will enable the road to recovery
- Despite major challenges in the past four months, Eskom has seen good progress in the Five Key Elements of the Turnaround
- Eskom has achieved most of the 2019/20 targets set in the Roadmap.
- Eskom took a decision to divisionalise as a cautious first step, in order to ensure that complexities are dealt with in a sustainable manner and the business is able to road test some of the ringfencing activities internally first.
- The balance of the Roadmap targets are in progress, however Eskom has extended the functional separation timelines.
- Legal separation will commence after the completion of divisionalisation, once the required legal framework is in place and Eskom is financially sound.
- The end state for the separation of the three businesses as subsidiaries under Eskom Holdings remains aligned to the Roadmap.

# Thank you

